MINUTES

ENERGY FACILITY SITE EVALUATION COUNCIL OF WASHINGTON
January 5, 2004 - Regular Meeting
925 Plum Street S.E., Building 4, Room 308
Olympia, Washington - 1:30 p.m.

ITEM 1: CALL TO ORDER

MR. FIKSDAL: I guess we will call this meeting. I'll assume command here if that's okay with most of the Council Members. We'll call the meeting to order for the Council for Monday, January, 5, 2004. We will have the roll call, Mike.

ITEM 2: ROLL CALL

EFSEC Council Members	
Community, Trade & Economic Development	(via phone) Richard Fryhling
Department of Ecology	Hedia Adelsman
Department of Fish & Wildlife	Chris Towne
Department of Natural Resources	Tony Ifie
Kittitas County	(via phone) Patti Johnson
Chair	(via phone) Jim Luce

MR. MILLS: The Chair is present via telephone and there is a quorum.

OTHERS IN ATTENDANCE

EFSEC STAFF AND COUNSEL

Allen Fiksdal	Mike Mills
Mariah Laamb	Irina Makarow
Ann Essko – AAG	Shaun Linse - Court Reporter
Tammy Talburt	Pete Dewell – ALJ (via phone)

EFSEC GUESTS

Karen McGaffey – Perkins Coie (via phone	David Reich - Ecology
Darrel Peeples – Kittitas Valley Wind Project	Kirk Deal – Carpenters Union
Mark Anderson – CTED EP	Cindy Custer - BPA
Bill LaBorde - NW Energy Coalition (via phone	Ron Verhei –PNW Carpenter's Union
Jim Hurson – Kittitas County (via phone	Clay White – Kittitas County (via phone

NO. 3: ADOPTION OF THE PROPOSED AGENDA

MR. FIKSDAL: The next item on the agenda is adoption of the proposed agenda. I think the agenda was emailed to most people or sent. Are there any motions to adopt the agenda?
CHAIR LUCE: So move.
MR. IFIE: Second.
MR. FIKSDAL: It's been moved and seconded to adopt the agenda. All in favor?
COUNCIL MEMBERS: Aye.
MR. FIKSDAL: The proposed agenda is adopted.

ITEM NO. 4: PROJECT UPDATES

Kittitas Valley Wind Power Project	***Irina Makarow, EFSEC Staff***

MR. FIKSDAL: The next item is project updates. These are informational items, and we'll go through a list of our projects starting with Kittitas Valley Wind Power Project. Irina.
MS. MAKAROW: The Council Members will shortly be receiving a notice of a prehearing conference that has been scheduled for 3:00 p.m. on Tuesday, January 13. That is the same day as the Draft EIS public comment meeting. The prehearing conference is going to be held at the same location at the Kittitas County Fairgrounds. For those of you who are traveling, I encourage that you contact Mariah to finalize your travel plans, so she knows how many people are going to be on that State Patrol plane. The public comment period on the Draft EIS is planned to close on January 20, and that's about it for the updates unless Council Members have some questions for me.
CHAIR LUCE: No questions from me.
MR. FRYHLING: None from me.

Wild Horse Wind Power Project	***Irina Makarow, EFSEC Staff***

MS. MAKAROW: And I don't see any here either, so I will move onto the Wild Horse Wind Power Project. By mid January, Jones and Stokes will have completed their review of the draft application that the future applicant, Wind Ridge Power Partners, has submitted to us, and Wind Ridge Power Partners expects to submit a formal application approximately four weeks thereafter. So that would be mid to end of February we might have another application before the Council. That is all that I have to update you on the Wild Horse Wind Power Project. Are there any questions regarding that one?
CHAIR LUCE: None from me.
MR. FRYHLING: None from me.

BP Cherry Point Project	***Irina Makarow, EFSEC Staff***

MS. MAKAROW: Hearing none here, I'll move onto the BP Cherry Point Project. For those of you who are here in person you have a schedule before you. For the others I did email you a schedule in which I pulled together the dates that were picked for the briefs on land use issues and the final briefs with respect to the adjudicative hearing, and I've tried to plan out how the issuance of the final EIS would coordinate with that. Right now what we do have fixed are the two rounds of land use briefs on January 19th and January 26th, and then the post hearing briefs

would be due for the Applicant February 6, for the parties February 20, and the Applicant's final response brief on March 6.
MS. TOWNE: We have different dates on ours. We have February 2 for the Applicant's post hearing and 16th for the –
MR. FIKSDAL: The week of.
MS. MAKAROW: The first column is the week of.
MS. TOWNE: Oh, I'm sorry.
MS. MAKAROW: There's a date that's being set is set in parenthesis.
MS. TOWNE: Oh, okay. Got it.
MS. MAKAROW: They're currently working with Shapiro to prepare the Final EIS and respond to the comments, and at this point we're targeting the week of February 16 of when administrative review of the Final EIS would be delivered to EFSEC, Corps of Engineers, and Bonneville with two or three weeks for review of that because we would still not have had received the Applicant's final briefing. So with that period, the two to three weeks, I think that would fit in quite nicely and would allow the Council to begin deliberating as soon as the Applicant's post hearing response is received. However, if the Council feels uncomfortable with receiving the Administrative Review Final EIS ahead of all the briefing being closed, they should let me know, so that we can push the schedule out.
CHAIR LUCE: I find the schedule as it's laid out it looks like that would have the Council deliberating the week of March 8 or March 15.
MS. MAKAROW: Well, right now we're anticipating that it would be four to five weeks of deliberation and completing any documents that go along with the Council's decision with regards to this project. That includes the Final EIS and the Council's order.
CHAIR LUCE: Right.
MS. ADELSMAN: Irina, would you repeat the question again what you're asking us.
MS. MAKAROW: Right now the administrative review version of the Final EIS the Council would get, you would get it before having received the final response brief from the Applicant, but your review period would overlap with that. So this is a little bit -- we're pushing the schedule a little bit. Typically you have the Final EIS after you've received all the final briefs for your review.
MR. FIKSDAL: Hedia, the Council Members get to review the Final EIS before we publish it, so you have an administrative copy to look at.
MS. ADELSMAN: If we wanted to do it first, are you going to push the schedule a week, two weeks?
MS. MAKAROW: It would be two to three weeks out.
MS. ESSKO: So the issue, right, is whether the Council wants to have the advantage of having all of the post hearing briefs in hand as they're reviewing the administrative review version of the FEIS?
MS. MAKAROW: That's correct.
MS. ADELSMAN: Yes.
MS. MAKAROW: The Applicant's response, the receipt of the response will overlap with the period that you will have to review the administrative version of the Final EIS, so there will be some overlap, but they won't be sequential.
MS. ESSKO: So the thought would be that if they had the post hearing briefs in hand, they would possibly have a better FEIS ultimately produced because they have the advantage of hearing the parties arguments as they're produced in the FEIS.

MS. MAKAROW: It may impact what the Council decides should be written up in the Final EIS.
MS. ESSKO: That's better stated than the way I said it, yes.
CHAIR LUCE: What's the precedent, Irina?
MS. MAKAROW: The precedent, what has happened in the past is that typically the administrative review Final EIS has come into the Council after all the briefing has been completed.
CHAIR LUCE: Is this a change from that?
MS. MAKAROW: Just slight.
CHAIR LUCE: Just slightly?
MR. FIKSDAL: I don't think we have to have that answer exactly now; do we?
MS. MAKAROW: No, we don't have to have the answer exactly now, but the Council Members should consider that and let me know just how comfortable you feel with that; otherwise, we'll delay issuance of the Final EIS which would impact the schedule for the Council making their recommendation to the Governor.
MR. FIKSDAL: By doing it this way you would hopefully save a few weeks in getting the recommendation to the Governor. It's always better to get our decision or get your decision as soon as practical, but we want you to have all the information that you need.
CHAIR LUCE: Well, let's consider that. We will make a final decision in the near future.
MR. FIKSDAL: All right. Can we wait until the next Council meeting which I believe is the 20th or Tuesday the 20th.
MS. MAKAROW: Certainly. That will work just fine.
MR. FIKSDAL: So at the next Council meeting you can give Irina a sense of what you want to do. CHAIR LUCE: All right.

Columbia Generating Station	***Mike Mills, EFSEC Staff***

MR. FIKSDAL: The next item is Columbia Generating Station. Mike Mills.
MR. MILLS: Just briefly report that the Columbia Generating Station nuclear plant is running at 100 percent power and it's been on line for 186 consecutive days.

Chehalis Generation Facility	***Mike Mills, EFSEC Staff***

I would also report that the Chehalis Generation Facility is operating at full power, at 550 megawatts. They were down due to market conditions in December, but they restarted in late December, and they're now running at full power. I think it's good that both of our operating plants were running during this particular time frame with the weather.

WNP-1	***Mike Mills, EFSEC Staff***

MR. MILLS: I would also report on WNP-1.Staff is in the process of putting together the package that's going to go to Energy Northwest, and part of that will be a billing request for the 3.5 million dollars for off-site mitigation. The subcommittee that the Council has formed to look at funding offsite mitigation met earlier today, and the one firm recommendation that the committee would make is that Jim Luce make an effort to meet with the Department of Fish and Wildlife Director in the next two weeks to go over the 4-party letter agreement and the expectations made regarding the off-site mitigation fund. Do any of the committee members wish to add anything? Okay. The committee has scheduled another meeting for eleven o'clock on Tuesday, January 20.

CHAIR LUCE: When is the meeting that I have later this week with Ecology? Is that on Friday?
MR. MILLS: I don't know the answer to that, Jim.
CHAIR LUCE: Allen or Hedia, do we have a meeting later this week with Ecology to discuss the CO2 issues?
MR. FIKSDAL: Oh, that. That is on Wednesday.
CHAIR LUCE: Wednesday?
MR. FIKSDAL: Wednesday afternoon I believe.
CHAIR LUCE: Subject to weather vagaries.
MR. FIKSDAL: Yes.
CHAIR LUCE: Well, okay. It would have been nice if we could have doubled up with the other stuff and the weather is uncertain. Okay. I accept the committee's recommendation. I would love to meet with the director.
MR. IFIE: Question. What is the issue of Fish and Wildlife with regards to the agreement, the agreement with WNP-1?
MR. MILLS: The agreement calls for consultation with the Department of Fish and Wildlife, and the committee thought it was important to have the Chair meet with their director and go over the language of that agreement. And we also have a provision in the contract with the department that we want to make sure is clearly understood in terms of how that –
CHAIR LUCE: Does the director want to clarify what the word consultation means?
MS. TOWNE: Mr. Chairman, the difficulty is that EFSEC's ongoing contract with Fish and Wildlife has added in the 3.5 million, so it's not unreasonable that they expect to receive the 3.5 million. So not only the deal with WNP-1 and 4 says consult with, but the contract between us and them says they're going to get the money; therefore, when I met with them this morning, several of the staff people who will be involved, they fully expect to receive the 3.5. If they are not going to or if we have the option of not giving it to them but to some other entity, they need to know that now because they're operating on a premise that may or may not be true.
CHAIR LUCE: If you could advise them that that's not true; that there's no obligation to provide the 3 1/2 million to them.
MS. TOWNE: Well, they're then going to the pull out their contract with us and say, but here it is.
CHAIR LUCE: Well, they can then interpret the contract one way. We'll interpret it another.
MS. TOWNE: Yes, I do understand. I was not in a position to make that statement to them this morning, and it just seemed like it might be prudent to –
CHAIR LUCE: I would be glad to meet with the director. We will certainly work closely with DFW, but there's no assurance they're going to get the 3 1/2 million dollars.
MS. TOWNE: Right.
CHAIR LUCE: So if the director would like to meet to discuss that issue, I would be glad to do that.
MR. MILLS: All right. With that, we'll go ahead and set that up then.
CHAIR LUCE: The only thing I would add is staff shouldn't be under any false impression that the answer will be yes when that meeting is held.
MR. FIKSDAL: The Fish and Wildlife staff.
CHAIR LUCE: That's right.

MR. FIKSDAL: Thank you for the clarification. Okay. I think we've covered all the projects. Are there any other Council Members that have any other comments or questions about any of the projects discussed? Any comments or questions from members of the public?

ITEM NO. 5: EFSEC RULES

Rules Review	***Jim Luce, EFSEC Chair***

MR. FIKSDAL: Hearing none, we will move to Item No. 5, which is the EFSEC Rules. For those on the line for Kittitas Valley Wild Horse, BP, I think that's the end of that discussion unless you want to listen to our discussion about rules. Primarily we're going to be discussing issues regarding the CO2 mitigation rule. That's all we have on the projects.
MS. JOHNSON: Okay. I will see you guys next Tuesday.
MR. FIKSDAL: Okay. Thanks, Patti. That was probably Pete Dewell and Patti Johnson that signed off and I assume Clay White and Jim Hurson.
CHAIR LUCE: All right.
MR. FIKSDAL: Jim, the discussion I believe that you want to have today was primarily to try to come to some or at least discuss some of the quantities that we've been looking at in our CO2 rules. We had an initial rule that we put out for public comment. We heard lots of comments. We had two hearings on those rules and received hundreds of comments, and there's been some discussion going on within the Council on the potential changes to those rules. And primarily the changes to the dollar costs for dollar per ton of CO2 and a couple other things. Do you want me to continue or would you like to?
CHAIR LUCE: Let me give you the context.
MR. FIKSDAL: Jim, you need to speak up really loudly.
CHAIR LUCE: Did everyone get the email I sent out yesterday on January 4?
MS. ADELSMAN: Yes.
MR. IFIE: Yes.
CHAIR LUCE: Well, what I tried to do is to give us some context. I mean our original draft used I guess I'd called it a plug number based on Oregon's statute, 87 cents per ton, 30-year plant life, 100 percent capacity, administrative costs included. Actually it was based upon short tons not metric tons. I was wrong on that. That's an appropriate solution. I'm not saying that cost per ton is right, but that's an appropriate way to approach it if you're doing legislation, but we're likely not doing legislation. So we need to come up with a number that is reality based in terms of real time and in my opinion that meets our statutory balancing test of abundant power at reasonable cost while protecting the environment and the public interest. So what I did was to contact the Northwest Power Planning Council Senior Resource Analyst Jeff King and ask him how often do these large thermal plants that we're regulating actually run? His answer was no one knows for sure, but the Power Council's best estimate is somewhere between 60 and 65 percent of the time and trending down to 60 if the gas prices, the natural gas prices stay at the level that they're supposed to or anticipated to I should say. The Council's current model is closer to 65 percent, but Jeff says the price of natural gas is a model that the Council uses. The Power Council is probably too low. Sixty percent is probably realistic assuming that these gas prices continue to increase and stay at current levels and average hydro conditions. So what we have done in the I'll call it the blue sheet, which I think you all have before you, is to lay out a number of options based on a capacity factor that is actual operating time of 60 percent based

upon a cost based in metric tons and based upon a 30-year life average for a plant, which is an industry standard. I think we had earlier discussed 25 years as a possibility, but there really is very thin support for 25 years. It's hard to get to 25 years. Thirty years is the industry standard. So I asked Allen to put together a cost comparison chart based on that, and I think do you all have that before you?
MR. FIKSDAL: Yes, we do.
CHAIR LUCE: All right. Well, starting at the bottom line, the green line is what Oregon does today, and all of these dollar figures incorporate administrative costs. Oregon is at if you go over to 6700 and Allen's bullet points out not only are these in millions of dollars, but the heat rate, average heat rates are between 6500 and 7100.The lower the heat rate the more efficient the facility. When it consumes the 6700, Oregon is at 8.72 million, and we were at 10.57 million. That's for 30 years including administrative costs. If you run your finger up the column, up to 60 percent at two dollars a ton is 14.58.So I think what we need to do today hopefully is to reach some sort of a consensus, and this is not a vote. This is a hopeful consensus on some numbers to send over to Dave. Dave, are you there?
MR. REICH: I am.
CHAIR LUCE: At Ecology to allow him to do the modeling for the Small Business Economic Impact Statement and the Cost Benefit Analysis. I think one of the benefits of reaching this decision today -- first of all, it's not a decision. One of the benefits of sending these numbers over today (A) will be to get it behind us, and (B) will be to let Dave get his work done. I guess I would say that there is no right answer. If there were, it would be really neat because we could just put the dollars that all the people have given us and public comments into a computer and we could spit out the right answer, and that would be just great. It would make everybody's job a lot easier. The Chicago Exchange is a dollar a ton. I personally think that's too low. Other people say a hundred percent capacity, assume that at whatever the market costs are. I think we wouldn't build any plants under those scenarios. You certainly would not provide abundant power at reasonable cost, so there is room for support I believe for these numbers. And what the Council needs to decide in my opinion today is which one or two numbers to send over to Ecology to let them begin this analysis. I think we will be moving away, in my opinion, from the, I will call it the Oregon standard. I think we will be moving in an upward direction, and I think that we should on the issue of administrative costs I think that the administrative costs are currently included. I think that's important to remember that. So I'm ready to listen to Council. That sounds a little presumptuous. Of course, I'm ready. I've spoken enough, so why don't I just sit back and enjoy the fire and let everybody else have their say unless there is a question.
MR. FIKSDAL: Tony Ifie wanted to have a statement here.
MR. IFIE: Yes. I think the first question that I will have will go to Dave. It's hard to figure out what exactly we need to land on today. David, do we need a -- what kind of numbers do you want from us today? Do you want one definite number? Do you want a range of numbers?
MR. REICH: Well, one definite number would be great if you can come up with that.
MR. FIKSDAL: Why don't you go ahead and sit down.
MR. REICH: Okay. Can I pass these out?
MR. FIKSDAL: Sure.
MR. REICH: I made some, just kind of ran some numbers, the numbers you asked for the last two meetings ago I guess, sort of rate impacts that I think might be informative for the Council as they have their discussion, and I don't know how much time we have, so I don't want to take too much time. But, Jim and Richard, basically I'm handing out it's some overheads I made of

some numbers I ran based on Council's request, and so I want to try this information because there was some concern, and basically some people wanted to know basically what the rate impacts would be from different mitigation amounts and different costs. And so I provided this information in these handouts that I guess hopefully you guys can get mailed to you or something to look at shortly. Basically all I did was a relatively simple analysis. I said assume that a new 540-megawatt plant comes on line. Assume three different mitigation percentages, 20 percent and 40 percent and 100 percent, and assumed four different mitigation rates, 87 cents, two bucks, $2.50, and $2.83. The last amount was kind of considered a market rate the Climate Trust has been using as the average rate that they've found recently. And then I used the rule language from the September '03 draft, so this assumes that you're basing 100 percent capacity factor and -- excuse me-- 100 percent capacity factor, 30-year life. And I also assumed that the plants were 100 percent financed and that they paid over five years. So if you go through that, I will let you look at that yourself. I don't want to spend a lot of time on it. But if you go through that, you get the cost impacts in terms of dollars per kilowatt hour, and then I provided the information on what an average residential, commercial, and industrial connection uses and how much their average electricity bill is. Okay? And ultimately what you end up with is what the rate impacts are. So on Page 3 of the handout the top table provides the rate impacts assuming that whoever this user is, residential, commercial, industrial gets 100 percent of their electricity from this source. So that's the 100 percent electricity part in the title. What you find is that the residential rate impacts are between $2.00 and $33.00. For commercial it's between $13 and $218, and industrial between $170 and $2,760. So that's the number assuming that they were receiving 100 percent electricity from that source. Okay? The second table, the bottom table on that same page assumes ten percent of electricity comes from that source. It's probably not realistic to assume in general that people are going to get 100 percent electricity from a source that's required to mitigate for carbon in the future. So I said, well, what if it was ten percent? Okay? What if they received ten percent of electricity, how much would the rates go up? And you see the residential impacts between 20 cents and $3.30 per year. Commercial is between $1.30 and $22.00 and industrial between $17.00 and $276.00. Okay? I know that's a lot of numbers in a short time, especially if you don't have the stuff in front of you, but hopefully that will provide some context for Council to sort of look at what kind of impacts might we see depending on what type of mitigation percentages and mitigation costs we choose to put into the rule amount.

MR. FIKSDAL: So if you took these numbers that you had and wanted to see something in between the boxes that you have, you could just extrapolate. It's a straight linear type of thing.

MR. REICH: Yes. You will notice the 10 percent numbers are 10 percent of the 100 percent numbers, so if you want to do 20 percent. So you can if you want to play with those numbers. I also on the last page provided my contact information. I'm more than happy to run other numbers for you, provide you information in the next several weeks if you wanted to know some other alternative scenarios.

MR. SWEENEY: I have a question about Page 2. You have the electricity generation cost impact chart.

MR. REICH: Okay.

MR. SWEENEY: Is that based on full capacity of the plant, of a plant, or what's the assumption there?

MR. REICH: For electricity generation cost impacts?

MR. SWEENEY: Yes. You have a per kilowatt hour cost, and I'm wondering if you had a plant in mind?
MR. REICH: It's the same 540-megawatt plant on the front page.
MR. SWEENEY: All right.
MR. REICH: So I just assumed this typical plant. Obviously what we would like to know is what plants do we –
MR. SWEENEY: At 100 percent.
MR. REICH: Yes. Well, the mitigation amount is at 100 percent. The actual generation, the actual time the plant operates I assume 90 percent, which may be a little bit high based on what Jim was saying. What was I saying? So what you would like to know obviously is all the new plants that will come on line over the next 20 years or whatever, and we don't know that. We can estimate that. Part of what the Power Planning Council is doing is estimating that. But to sort to give us some sense just assuming hypothetical plants seemed like a reasonable approach. So those are numbers. Going onto Page 4, I just kind of pointed out some other issues that the Council might want to think about. The rate impacts that I listed on the previous page assume no risk management benefits, so it has been pointed out that if EFSEC requires plants to mitigate for carbon dioxide now and maybe some federal program or federal program comes on board six or eight or ten years from now, it might be a real benefit to firms. They might get this mitigation cheap, and eight or ten years from now when it's more expensive it will actually turn out to be sort of a benefit to them having gotten in on the ground floor, gotten in earlier. So those numbers do not assume any of those benefits, the numbers on the previous page. Okay? On the next bullet I mention, I said, "More broadly, what is the baseline? "I think it's important to think about when you're thinking about how you want to move forward. Sort of the international and national climate, no pun intended, in terms of what type of regulatory environment is going to be in place five or ten or fifteen years from now. So what I'm proposing to do in the benefit cost and the SBEIS is basically looking at two bookends and then something in the middle. So one bookend is, assume that Washington and Oregon are the only states on the western grid that have carbon dioxide mitigation requirements. The other end would be, assume that there's a federal program going into effect in five or ten years, something similar to the McCain-Leiberman Bill. And then middle ground would be something in the middle obviously like an Oregon standard on all states on the western grid or something like that. So the Power Planning Council they are just right now updating their fifth power plan, so they're going through and trying to estimate what type of generating resources are going to be on line in the next 20 years. They assumed an Oregon standard of taking place in all states and provinces in the western grid being implemented over kind of staggered into effect. So Washington, Oregon are in effect now. This is their model anyway. Washington and Oregon is in effect now. B.C., Alberta, and California come on line in 2005 and all other states in 2010.Okay? It's important in their model because it drives a lot of what we expect to see in generating resources. Obviously more wind, the kind of things you would expect from that type of analysis. Also just the last bullet is basically a discussion with the Oregon standard. The Council had asked me just to look and see what the current prices are and what they're sort of thinking they may be in the future. Currently they're 85 cents a short ton or 94 cents a metric ton plus five percent for contracting. I spoke with two different folks down there, and they said there's been no discussion about what they want to raise it to, if they want to raise it. No discussion among staff or Council. So we really don't have anything to go on what they're proposing to do in the future. Going on down below and I'll let you read this. I guess I won't go through them all. I did a little research on what different types

of markets there are out there now for carbon, and basically there's kinds of transactions taking place in two different markets for emission allowances and project based emission reductions which is kind of what EFSEC is proposing to do. And you can see the prices down below. So I broke it out into allowance markets where prices range anywhere from 85 cents in Chicago up to 15 bucks a ton in EU, but it's important to keep in mind when you look at those numbers that all these markets are very new. A lot of them have very few participants. The Chicago market in particular is a voluntary market, so there's no punishment if you go over the amount you agree to abate. So some people have commented that those prices are probably too low for that reason. The project based emission reductions down below at the bottom this is from a just completed survey that was done in December, last month actually, and you can see the prices range anywhere from $1.95 a ton to $6.40 a ton. And it seems to vary. What seems to be very important in those prices is what people expect. How do people view them in terms of the future? Do they see them as being valuable under a future international protocol like Kyoto or some national program like McCain-Leiberman? So you can see the prices vary based on that as you look at those. So basically, Richard and Jim, you can't see those, but the ones that are Kyoto precompliant, meaning that some of the people expect them to be compliant under Kyoto or the seller takes the risk, the price ranges from basically three bucks to six and a half per ton. If they're not for Kyoto compliant, meaning people only expect them to be acceptable under the Kyoto, they range from two to three dollars. Okay? The last page I just talked about the sort of the more local projects. The Climate Trust's average price is $2.83, and City of Seattle has recently, just recently signed an agreement, and theirs is $2.28 a ton for a relatively small project. So I kind of in conclusion I talked about what is the optimum rate to set. This is kind of a classic economic question. There's a trade off to be made that if we do more today we give up something, so we can have cheaper goods and services today but greater environmental damage tomorrow, so how do you make that trade off? And as Jim said it's really tough to get an answer to that question or potentially there's no right answer. Certainly not with the current technology we have. There are academic models that have been done, and I cite this handout down at the very bottom last bullet and the range of marginal benefits which means the benefits from mitigating say one ton of carbon is between $5.00 and $125.00. Okay? But I would just I would put a caveat next to that and say that those models are subject to a lot of uncertainty and certainly a lot of discussion and argument among academic types, so keep that in mind as you think about those numbers. Then the last page I noticed some discussion about the local, among Council about local versus non-local, so I just provided some information from the City of Seattle. In 2002, they did an RFP looking at projects, and they were nice enough to provide me their average prices for Washington projects and out-of-Washington projects, and what you find is that out-of-Washington projects tend to be cheaper by about 50 percent. So I provided that information because I know there was some discussion among Council. You know, obviously the benefits of these types of projects of any kind of offset project is the actual climate change damage avoided, and there's also additional benefits in many cases like reduced traffic or energy savings or other types of things like that. So I guess the trade off is if you ask for a local project, it's going to cost more. Council just wants to think about the additional benefit you might want to get. Are there additional benefits to having it in Washington versus in some other place? Okay. And then I just provided my name and stuff at the bottom if you want to contact me.
CHAIR LUCE: That's been very helpful, Dave. Thank you.
MR. REICH: Sure.
MR. IFIE: Question for you, Dave.

MR. REICH: Sure.
MR. IFIE: Did you consider the economic impacts if all the plants are no longer siting in Washington but moving to Oregon? Does that increase in any way the cost of electricity in Washington or what is the economic impact of not having the plants sited here but sited somewhere else?
MR. REICH: Yes, that's a great question. This analysis doesn't talk about that at all. I am working on that as part of the benefit cost and SBEIS. In theory, that makes total sense. If you raise the cost of building a plant in Washington State, it's going to make other states more attractive. So the question is how important is that effect? Is that a significant effect I guess is the real question we're trying to answer? So I am trying to get at that question in the analysis.
MR. FIKSDAL: Well, I guess the question, you know, you mentioned is it a significant impact? Will you say where that significant impact will be? I mean if you increase the rate to a certain amount, then it is in fact a significant impact if they all move out of state. Are you going to give us a zone or a range? Or if we give you some numbers, can you give us a zone? How definitive can you be? I guess that's the question.
MR. REICH: Frankly, that's a tough question. Again, there's a lot of uncertainty. The impacts of EFSEC's rule making in terms of carbon dioxide are so dependent on what happens federally or in other states. If the federal government imposes some standards similar to this in five years, well, then EFSEC's impacts are only five years long. So I mean you really have to think about that, and, of course, you also have the sort of uncertainty in the electricity markets. And so what I've done is I've been working with the Power Planning Council to use their models, since they already have the generation system already up and running on a computer model to try to get at those questions. So they've been nice enough to do some extra runs, and I hope as soon as we have a better sense of what the numbers are going to be that I can get them to run it again and get at how we expect the generation resources to change.
MR. FIKSDAL: I think that's a critical issue for the Council is not driving industry out of the state, and if the Council is going to set a limit, if it's going to make it too much for the industry to build, then that's too high.
CHAIR LUCE: Well, I think also what Tony was alluding to is if the plant leaves the state, then there's a loss in tax benefits, and there's a loss in direct jobs, and there's a loss in spin-off economic impacts to the communities. There's no loss in -- I mean global warming will continue. It is global warming. So if they site the plant in Idaho or Montana which has no CO2 mitigation standards, they're still going to be spewing CO2 into the atmosphere. So in a sense what's the break point? At what point in time do we drive them off? At what point in time are the impacts so significant that they discourage projects, potential project developers from siting plants in the State of Washington?
MR. SWEENEY: This is Tim Sweeney, Jim. I guess that's why the green on your chart example is so important to us as a reference point.
CHAIR LUCE: The State of Oregon.
MR. SWEENEY: Exactly.
CHAIR LUCE: Yes.
MR. SWEENEY: And I know I've asked Allen this but, again, just for the benefit of the whole Council here, particularly with the numbers that Dave provided us on Page 4, kind of doing some translation of the Oregon Standards in metric tons, thank you. It says 94 cents a metric ton plus another five percent. In this green line basically is 99 cents roughly per metric ton. So it's not

meant to be as a replacement for a rule but as a reference point, so that we can have that kind of discussion.
MR. FIKSDAL: Right. And that line does include -- I used the Oregon model, including their administrative costs for a 650-megawatt power plant, so that includes administrative costs.
MR. SWEENEY: So the only thing that I can think of that is missing here, even though the Oregon rule is different in some other ways, but perhaps the most significant thing and when we get down to proposing scenarios to you, Dave, one of the things I would like to look at is the difference between the time value of five years versus up front. Oregon requires up-front payment. And we have a five-year option which is very attractive, but there is a time value associated with that, and it would be nice to reflect that when we do a comparison again with Oregon.
MR. REICH: Okay.
MR. SWEENEY: Do you understand what I'm saying there?
MR. REICH: Yes.
MR. SWEENEY: You have done that in a way with the economic impact on consumers, but, of course, there's an issue of what it is on the developer as well.
MR. REICH: Yes.
MS. ADELSMAN: You know, the other thing is you run a lot of numbers with 100 percent capacity, and I think we've been talking about maybe 60 percent or less, so I'm assuming that will change several of your numbers.
MR. REICH: Yes. The 100 percent that was because that was the way the rule was drafted in September, so I held that. But you're right. It will change if you change it to 60 percent or something, absolutely.
MR. FIKSDAL: I still think we can see the range in there and you can get the linear expression.
MR. REICH: Yes, that's the hope that you can look at it and get kind of a ball park idea of where we're at.
MR. FIKSDAL: Darrel.
MR. PEEPLES: Yes, I just want to cut in with you on that is it's not only you talk about a break point. Well, the break point is also controlled by how it's paid, and that has to be I think part of your calculation of break point. Because you can have a figure -- I don't know. There was a real big spread between one line and the Oregon there at seven million dollars or something like that. But, you know, it's a factor. A big factor is how that's paid, and I don't know how you calculate that. But that's a part to calculate your break point is of various scenarios how it would be paid. The other thing I'm wondering if your model can do because as Jim said, you know, if we force it out of state and it goes to Montana. And there's a lot of talk about putting another 500 kV line across from Montana, and that's getting more realistic all the time. And if it goes to Montana, it won't be gas. It will be coal. And what would the increase of CO2 be if we force it out of not only the State of Washington, out of Oregon, and out of gas into Montana for coal? Are you going to be able to calculate what the increase of CO2 would be if that happens?
MR. REICH: Well, the nice thing is the Power Planning Council model does calculate CO2 emissions, so when you put in different scenarios you can get those numbers. At some point I guess I'm going to have to have a conversation with the Planning Council and find out when they're going to start billing us for doing analysis. They have been nice enough just to do it kind of gratis up to this point. But if I have to run a lot of analysis, I might have to see if I can -- we'll have to talk about that I guess, Allen.

MR. FIKSDAL: Well, I think Darrel has a good point, but it's like an environmental impact statement. How far do you go in looking at possible risk or avoided risk or whatever? So we have to make a decision on how far to go and is it a reasonable evaluation or not. And so I think, Darrel, you bring up a good point, but I think we have to think about how much detail what all the scenarios could or should be.
CHAIR LUCE: Dave.
MR. REICH: Yes.
CHAIR LUCE: Or, yes, I guess Dave. You're the right person to do it. Maybe not. Are you working with Jeff King?
MR. REICH: Yes.
CHAIR LUCE: Tom Carrier, if you run into some sledding on the modeling, Tom is probably the right person to talk to because I think he's still Chair of the power group. I think he is. The other thing is I think I heard Darrel say.
MR. FIKSDAL: Cindy said he's not anymore.
CHAIR LUCE: He's not. Okay. He's still probably around the power grid.
MR. FIKSDAL: Yes.
CHAIR LUCE: The other thing that is probably a lot more realistic is Pacific has some very large real time coal deposits in Wyoming. They already have a line, and so I know they're actively looking at strengthening that line, and I think that Jeff would have the modeling done to look at not building a new line for Montana because that's pretty expensive but my guess is that they would be able to model bringing new coal in from Wyoming through the Pacific Power and Light System. So that is realistic. But, you know, that's a minutia point which we could talk about later. Where are we in this discussion at this point?
MR. FIKSDAL: I think one of the things the Council Members need to discuss or decide -- Dave has presented us a range of impacts from different scenarios.-- if we want him to narrow those scenarios now or not and come a little closer to I guess the expectations based on that blue sheet. Or if, Dave, you think it's necessary or unnecessary. I mean you've given us a big swath, whether it's really important to narrow that more or not.
MR. REICH: Yes. Well, I mean I know we had really talked about getting a number by the 20th of January, the next meeting which would be great for my analysis. Obviously when I talked with Jeff having fewer scenarios to evaluate is just going to be that much more. It takes about 30 hours to do a run on this computer model, so the cost is not insignificant. So the fewer runs we have to do the better. So if we can narrow down, it would be great. And if there's any additional information the Council needs to the extent that I have it, I am happy to provide it. I guess it doesn't necessarily have to be done today, but I suppose at some point we need to put a number in the blank spot.
MR. IFIE: I still have some questions.
MR. REICH: Okay.
CHAIR LUCE: I have a suggestion to make based on what I've heard.
MR. IFIE: I have the floor.
MR. FIKSDAL: Tony has a couple questions.
CHAIR LUCE: Go ahead, Tony. I'm sorry.
MR. IFIE: That's okay. The one question I still have is do you plan on considering the economic disadvantage that Washington may have with Oregon, since Oregon as you listed has passed a rule that we know of? I guess it's a legislative rule, so it's a law. We are trying to do this by agency rule. In their case when they did this, you know, they have a set of economic

circumstances. The taxes are different from Washington's taxes. In their standard their voltage, the collection for the power grid inter-tie our rate is higher in Washington. Is that right, Jim?
CHAIR LUCE: There are some benefits to siting plants in the State of Oregon which are incidental, some power benefits which are incidental to anything that has to do with the cost of CO2 mitigation, and they have to do in part with the additional capacity that you can get by helping strengthen the power grid inter-ties.
MR. IFIE: So my real point is that if we are going to be comparing the cost of the fee that Oregon is charging for their CO2, then we should also be considering all the costs that the company would be paying because in a way the taxes that you pay translate to this being used to mitigate some of the result of your plant. So my question to you are you planning on doing a broader -- are you planning including things like taxes, external costs that might be directly related to CO2 in your analysis?
MR. REICH: Yes, that's a good question. There's a CTED study that was done in 2001 where they looked at relative siting costs, Oregon, Washington, Idaho or excuse me -- Oregon, Washington, California. I don't know how many of you have seen that, but they actually have a pretty nice breakdown. They assume a hypothetical plant, and then they say if you put that plant in Washington, Oregon, or California how much would the cost vary. So I plan to redo that analysis assuming EFSEC's rule, whatever the numbers turn out to be. And what it will tell us is sort of relatively how much it changes, the relative ranking of Washington to Oregon to California. So we're currently working on trying to update those tax numbers and everything right now.
MR. FIKSDAL: Tony, do you have another question?
MR. IFIE: Not for now.
MS. TOWNE: I want to talk a minute about the law of unintended consequences and what any of these numbers represent in addition to the competition for new plants which I agree is a very important one. Another one is renewables, and here the higher our number the more I would think intuitively it would tend to favor renewable projects where you don't have CO2 emissions. Obviously one less cost. So if you up the carbon-based operations, it should help the renewables. So that's on the benefit side. The second is the equity question of peak versus base plants. And if I were a peaker that ran at 30 percent, but I had to pay at 60, I might get a little annoyed at this as being inequitable. The last is another unintended consequence one. If I have an older plant with higher emissions say than a natural gas cogen or if I've got a coal plant or I'm using oil or some other more polluting facility and a brand new one that emits less because of its design and/or fuel is going to have to pay this surcharge in effect that is a disincentive for me with my old dirty plant from shutting down. And the higher we push that number on the new plants, I would, again, intuit that it might be a disincentive to get rid of an old dirty plant. So those are factors that I'm sort of considering.
MR. FIKSDAL: So basically you have opposing factors, two of the factors you brought up are opposing.
MS. TOWNE: Yes. Yes. I'm just saying these are as I look at what number I'm going to land on these are the things I'm am going to consider plus and minus in coming up with some number.
CHAIR LUCE: Chris.
MS. TOWNE: Yes.
CHAIR LUCE: The unintended consequences on the peakers is an issue that we need to work with Ecology on because it primarily affects smaller plants.
MS. TOWNE: Yes, I suspect that too.

CHAIR LUCE: We have to address that. The unintended consequences on the old smokers that's a valid point. We don't have -- well, there's a significant issue about our regulating or re-regulating or rewriting the site certificate agreements on the older facilities. So you're absolutely right on that. The higher you push the number the greater the incentive is for the old smokers to continue and the less interest in building newer facilities. So I think those points are absolutely right on.
MS. ESSKO: This is Ann Essko. Implicit in both Tony and Chris's comments and also in a lot of Dave's comments, implicit in their comments is the issue of what are the correct factors that EFSEC should apply in deciding on what the contents of its rule will be. Of course, that's one of the factors that a reviewing court would look at, so I think it's a positive step that the Council is discussing what are the correct criteria, how will it explain to the Court that it applied the correct factors and did not apply incorrect factors and criteria.
MR. REICH: As far as -- this is Dave. As far as the issue of the old plants, again, I don't want to put too much faith in the Power Planning Council's model just because I'm not sure that it will pick out -- I mean obviously there's a lot of uncertainty. There's a lot of assumptions that go into these models, and so some of the small effects might be washed out by that uncertainty, but, if possible, we hope to be able to address that. But I can't make any promises that will actually get numbers that will be super useful to Council.
CHAIR LUCE: So, Chris, do you have anything else to add?
MS. TOWNE: No, that's it.
CHAIR LUCE: Tony, do you have anything else?
MR. FRYHLING: One of the things that it already does with the money they generate out for mitigation is to buy green power, so the more money you generate out of the CO2 mitigation out of these gas power plants, the money that generates, the Oregon folks have used that to buy into green power projects. So while you're getting more money, you're also producing the money to generate green power and make it more affordable to produce these.
CHAIR LUCE: Well, you might grow trees with it. That wouldn't necessarily produce green power.
MR. FRYHLING: No, but you might produce windmills with it.
CHAIR LUCE: You might.
MR. FRYHLING: They're doing that.
CHAIR LUCE: Do you have anything else?
MR. IFIE: I have one more point to make.
CHAIR LUCE: Dick, do you have anything you want to add?
MR. FRYHLING: No, I just would like us to look at some numbers there that Dave could use to put through the process and come up with it.
CHAIR LUCE: That's where I'm headed. I would like to give Dave a couple of numbers to work on today as a result of this, and I think there's been a suggestion that we run it with the five-year pay over time and without the five year. So what I'm trying to do is go through each Council Member and see whether we've got anything to add to the conversation. It sounds like Tony's got some additional thoughts.
MR. IFIE: Yes, I do. Right now like I said earlier Oregon is the only one that's passed a rule on CO2, and right now that cost is at 87 cents a ton that your numbers indicate or 85 cents plus administrative costs. Is that right? Does the 85 cents include administrative cost?
MR. REICH: It's 85 a ton plus five percent for contracting, so I think that's in addition to.

CHAIR LUCE: Tony, I can't quite hear you. I understand you're supporting the Oregon. Are you supporting the Oregon green line or are you supporting the Oregon we currently have in our draft rule?
MR. FIKSDAL: I don't think he's supporting anything. He's asking a question.
MR. IFIE: I'm just asking a question. So right now the experience I would have is Oregon has passed a rule and the plants are still locating in Oregon in spite of their rule.
CHAIR LUCE: Right. I understand.
MR. IFIE: Okay. You have to be patient with me now. Okay?
CHAIR LUCE: Okay.
MR. IFIE: So we know that they passed a rule and plants are still locating there; however, the rule that it passed was only at 87 cents a ton plus, you know, administrative costs. For us to go higher than that 87 cents a ton plus administrative costs is to go into uncharted area. It hasn't been tried before.
CHAIR LUCE: Okay.
MR. IFIE: We're looking at what's been tried, the 87 cents a ton plus administrative costs or Oregon, and they have the experience of siting plants. For us to go beyond that would be to go in an area that hasn't been done before. My fear is that that might result in driving plants from Washington. The question is if that results is EFSEC being true to its mandate? The mandate that we have is not to drive plants out of Washington. The mandate we have is to provide abundant power at reasonable costs as we put in our mandate. So the question I'm testing the idea with you and saying does that make sense to you that a rule like this might have that kind of impact? A rule that will be higher than, significantly higher than Oregon's rule, would that result in an insignificant impact of exodus of plants?
MR. REICH: Well, the CTED study that was done in 2001 I believe their basic analysis showed that even with Oregon's carbon dioxide rule they were still the cheapest place to locate a plant relative to Washington and Oregon. I believe it was Oregon, Washington, and then California, and that's even with their standard. But now if EFSEC imposes a carbon dioxide mitigation rule that's going to make Washington even less appealing, again, the question is how significant is that effect? I don't know the answer yet. I am trying to get something that's useful for us to look at as a way to think about that.
CHAIR LUCE: I'm sorry. I can't hear.
MR. REICH: Oh, I'm sorry. I was just saying that the CTED study showed that Oregon was the most inexpensive place to locate relative to Washington and California. This was a 2001 study where they just assume a hypothetical plant and said if we blocked it in these three different states which one would be the cheapest one.
CHAIR LUCE: Right. That's a big issue.
MR. REICH: Yes. There's different taxes, and as fuel prices and electricity costs change the relative order of the states changes, so Washington becomes more desirable depending on those numbers. But for baseline numbers Oregon was cheapest even with the CO2 rule. I think it's also important not to forget, to think about there are advantages to having your power source close to your load center. So it's important to think about the fact that you can't just locate a plant anywhere completely freely; that there's transmission constraints in various parts of the states and all over the grid that make it appealing to locate your plant close to load. So Puget Sound Energy in their Innovative Resource Plan actually looked. Their scenario was building a plant within their service area because they were concerned for a number of reasons, one of which was transmission constraints going over the mountains.

CHAIR LUCE: There are huge transmission constraints in the State of Washington. I mean you cannot underestimate those constraints. So, Tony, let me ask you a question.
MR. IFIE: I am listening.
CHAIR LUCE: If currently on the CO2 cost comparison chart it's reflected as 100 percent capacity at 87 cents a ton, how would you reflect that at 60 percent capacity? What would it be?
MR. IFIE: It would be $1.45 a ton.
CHAIR LUCE: So you would propose one of the options that we give to Dave would be 60 percent capacity at $1.45.
MR. IFIE: That would not be comparable with Oregon. That would be at about 1.8 million dollars more than Oregon's mitigation cost at 550 megawatts. So does that answer your question?
CHAIR LUCE: Allen, this is based on, what, a 650-megawatt plant?
MR. FIKSDAL: Right.
CHAIR LUCE: That's what we want to do. Can you run it under a 650-megawatt plant?
MR. REICH: Sure.
CHAIR LUCE: I think we want to stick with that.
MR. FIKSDAL: Or I can redraw the graphs at 540. Either one. It doesn't make any difference. Is 540 what the Power Planning Council uses in its model?
MR. REICH: Yes.
MR. FIKSDAL: So let's use that. We used 650 because that was what Sumas was and the Council was used to that, so I can redraw these using 540 megawatts.
CHAIR LUCE: Okay. It doesn't make a lot of difference. So, Tony, would you be comfortable with doing it that way or are you when you say you want to do it the Oregon way are you talking about 87 cents? Are you talking about Oregon as it currently exists in the Oregon rule?
MR. IFIE: Yes. I think, you know, right now what I'm thinking is that it makes more sense to be comparable with Oregon even though that puts Washington at a disadvantage because of the tax structure in Washington.
CHAIR LUCE: That's going to be a step backwards from our draft rule.
MR. IFIE: I won't say it's backward. I would say we're incorporating comments that we got during the public review process. We got some comments that said that. Just to make it clear, we got comments, the public comments we got the numbers were all over the map. We didn't get a good -- we didn't get direction one way or the other. We were getting from zero to 100 percent. So what I've done is I've gone with information that was convincing to me. In other words, what makes more sense based on the evidence that was presented during the public comment period.
CHAIR LUCE: It certainly puts a bookend around Dave's modeling. It certainly puts a bookend around it. So you would go with Oregon as its currently reflected on the green.
MR. IFIE: Right. Correct.
CHAIR LUCE:I for one would like Dave to model 60 percent capacity at $1.60 a ton. And is there another Council Member who would like a third recommendation?
MS. ADELSMAN: Yes, I would like to propose that Dave runs the model with 60 percent, 30-year, but at $2.30 and 15 percent administrative costs. Again, we're using this as a bookend. And I'm like Chris. I think there is a lot of information that we need before we land on a number, and I don't want this to be interpreted that this is the number that I want to land because there's a lot of further things that we need. And I think what Dave was talking about there are siting costs for him running that. Looking at what does this do incentive and disincentive toward

renewable or encouraging all the plants to actually continue to operate instead of just taking them off the market in the long run. I think we have a lot of information that we need to bring together in order for us to at the end make a decision. But if we're talking just about some model runs, I think we should go ahead. And I want you to look at 2.30, that assumption and a lump sum. I think we talked about both scenarios, a lump sum or payment of over five-year period.
CHAIR LUCE: You're talking about time value of money.
MS. ADELSMAN: Yes. I wanted to make sure that we are talking about metric tons because I think thanks to Dave we see there's a difference in the numbers. Oregon it's not 87 if we talk about metric tons. It's really 94.So we need to decide do we want him to run one unit, so we are all talking the same? And I'm assuming metric tons is what we want; is that correct?
MR. SWEENEY: Yes.
MS. ADELSMAN: So we won't talk about 87 cents anymore. We talk about 94 cents being Oregon.
MR. SWEENEY: 99 I think with the five percent.
MS. ADELSMAN: Or 99 with a five percent.
MR. SWEENEY: Counting administrative costs.
MS. ADELSMAN: Yes.
CHAIR LUCE: Tony, you would agree that we need to compute Oregon in metric tons, right?
MR. IFIE: Yes, I agree.
CHAIR LUCE: So do we have a consensus that we would send those three options together with the five years over time and the lump sum; one being an incentive if you pay all up front and one not being an incentive but just being another option over five years? Send those to Dave and ask him to model those, and from those three the Council would make a recommendation as to what goes into the CR 102.
MR. SWEENEY: Yes.
MS. ADELSMAN: Jim, we're still going with 20 percent mitigation, is that correct, because he ran it with 40 and 100?
CHAIR LUCE: I can't hear you, Hedia.
MR. SWEENEY: Hedia was pointing out that Dave did a run of 20, 40, and 100 percent mitigation, and we haven't really talked about that part of the equation today.
CHAIR LUCE: I would like to go with 20 percent mitigation is what I'm assuming we are going to make the run at.
MR. SWEENEY: That seems reasonable to me.
MR. FRYHLING: That's reasonable to me.
MR. IFIE: Twenty percent is close enough to 17 percent for Oregon, so I would go with that.
CHAIR LUCE: So let me summarize what I think I've heard. I've heard the Oregon comported into or computed into metric tons, 60 percent capacity at $1.60, all of these are 30 years. Administrative costs included in all of them. It says 20 percent mitigation. And what have I left out?
MR. FRYHLING: The other one at two dollars.
MS. TOWNE: The payment plan.
MR. FIKSDAL: The time value costs.
CHAIR LUCE: The time value of money. It's a factor of lump sum versus five years.
MS. ADELSMAN: Jim, Dave he worked the rate impacts at 100 percent coming out of this plant which were definitely not realistic, but then he worked another number of ten percent. Shall we just keep the ten percent?

CHAIR LUCE: I think we're talking about 20 percent.
MR. FIKSDAL: No. The question is what is the assumption of the amount of electricity that a residential, industrial, commercial user may possibly use out of the resource mix?
CHAIR LUCE: That's very hard to say because really the issue, and I think, Tim, you have discussed it in the past. The issue is the separation of the deregulation of energy markets. I mean the Tellus Study talks about the impacts on consumers and businesses which is interesting and important, but the real issue is project developers. These plants are not being built by utilities anymore. They're being built by private developers, and the question is at what point will project developers say it's no longer in my financial interest to develop this plant in this state because I can't make a profit at it when I have to follow the mitigation costs associated with whatever the siting council, whether it be Washington or Oregon or whomever is asking. I'm running consistently red numbers. I'm not going to go there.
MR. FIKSDAL: Yes, Jim. I think the discussion, Dave, was that, you know, mostly we're dealing with independent power producers. They produce a product, and that they sell to utilities, and the utilities, the rates that utilities charge is up to the UTC to decide. I think it's important to know these numbers. You know, what possibly the consumer is going to be charged. But we have to be careful that isn't our driving factor.
CHAIR LUCE: I think it's important to know the numbers, but it presumes the fact yet to be in existence and that is that the project developer will ever develop the project.
MR. REICH: That's true. I assume that they would pass through all costs in rates which is maybe a better assumption for a consumer owned utility or investor owned utility but probably not a good assumption for an IPP, and we are currently looking to see if we can calculate how an -- it's really in the investment return to an IPP. How does that change as we raise these costs? And I don't have those numbers yet, so we are working on them.
MR. FIKSDAL: That's good.
MR. SWEENEY: Primarily I think the analysis that at least I'm looking for is the cost to the developer compared to the Oregon rule. And while it's interesting to note what the potential rate impact is, right now it's more the issues we brought up today that are relevant.
MS. ADELSMAN: My question to Dave the requirement for doing a small business economic impact statement and economic analysis do you need more information than we gave you? Like, for example, you eventually I'm assuming you need to know what is the impact ultimately on the small business, small commercial, on residential. I mean you have a need that is maybe not -- that ultimately needs to be satisfied in order for us to have a really good small business impact economic impact that can pass. So do you need to get more information like what we just talked about, the percentage of power coming out of this particular plant, the number, and making an assumption of how much of that is going to be passed onto the consumer?
MR. REICH: Typically I would make that assumption as part of the analysis looking at trying to make an educated assumption as to how much of that will come from. But I do need ultimately the number of what's the mitigation percentage, what's the amount, that sort of thing before I can calculate any numbers.
MS. ADELSMAN: So that number we gave you, I guess the ranges we gave you is sufficient for you to do the economic analysis.
MR. REICH: Well, it would be nice to have a number -- well, I guess I would phrase it I think this is a really good use of economic analysis is you giving me several scenarios to run and me come back with some answers saying this is what I came up with, and then we would kind of narrow it down and try to get to a number. Ultimately it would be nice –

MR. SWEENEY: To just have one.
MR. REICH: Just one, yes that I can run.
MR. SWEENEY: I think there's only one we're allowed in the rule.
MS. TOWNE: As I recall the SBEIS statute, small business impact, I suspect you look at the victim of the rule. The business that buys electricity to do its business is the impactee. But is the power producer let's say a small 100 megawatt is that business person also do you analyze the impact of the rule on that entity, both the customer and the supplier?
MR. REICH: Yes. I've have kind of divided it into direct impacts and sort of secondary effects. Direct impacts are as you have been saying the plant developers. Those are the ones who are ultimately going to experience this and bear this burden. And the question is what assumptions do you make about how it gets passed into the rates? Does it get passed? Maybe it can't be passed into rates. Well, then it has to be borne by the developer solely. So the analysis that I've set up right now looks at both of those.
MS. ESSKO: How is it differing between what's the scope between the small business economic impact and the benefit cost analysis? I'm assuming they're not identical.
MR. REICH: They're not identical, yes. So the SBEIS is really a lot more of an explicit look at costs. So, you know, it's pretty easy to figure out what the costs are in terms of the societal costs. I just figure out how many plants there are and multiply by the mitigation amount, and there's the number. That's not hard. The benefit numbers are a lot harder. But in terms of looking at the small business impacts you have to kind of trace through what the effects are. You know, are IPPs all small firms? And if they are, then they could potentially bear a disproportionate burden compared with the portion of CO user investor-owned utilities. So it's really just a more explicit look at the costs and how they will be borne. It's really an equity analysis. So before we leave can I make sure I'm going away with the marching orders that I understand? So when we said model, I'm providing a similar analysis except, do you not consider rate impacts at all?
MR. FIKSDAL: No, I think it's important.
MR. REICH: You still want rate impacts.
MR. FIKSDAL: I think we need to recognize that rate impacts are an issue, but it may not be the dominant issue.
MR. REICH: Okay. So perhaps an analysis looking at how project development costs have changed under the different rules?
MR. FIKSDAL: Right. And, oh, by the way, it could be passed onto ratepayers, and this is what it would be if they were.
MR. SWEENEY: Allen's chart that's kind of color coded, I don't know if you got a copy of that.
MR. REICH: I don't have it, but I will get one.
MR. SWEENEY: I'm just doing some time value analysis with five-year difference versus the up-front, and then including Hedia's suggestion of two hundred and thirty -- excuse me, $2.30.
CHAIR LUCE: Yes, please.
MR. SWEENEY: Jim is having a heart attack.
MR. REICH: So the scenarios I have are 60 percent –
MR. SWEENEY: And Tony's.
MR. FIKSDAL: Oregon's, 1.60, 2.30, --
MS. ADELSMAN: Why don't you go through what you've got.
MR. REICH: So I've got four scenarios. Oregon in metric.
CHAIR LUCE: Three.
MR. SWEENEY: Oregon in metric that's Tony's recommendation.

MR. REICH: All right. Oregon in metric.
MR. FIKSDAL: You've done it potentially.
MS. TOWNE: I still don't think we're going to get apples and apples because isn't Oregon's administrative at five percent? And aren't we going to use something more like 15?
MR. FIKSDAL: Well, the way the current rule says not more than 15.
MS. TOWNE: But we're assuming that five isn't enough.
MR. REICH: The five is on top.
MR. SWEENEY: The five is on top versus 15 percent admin rule.
MS. TOWNE: Okay.
CHAIR LUCE: So we're doing Oregon.
MR. REICH: In metric.
CHAIR LUCE: And then we're doing 60 at $1.60 and 60 at $2.30.
MR. REICH: I had also down 60 at $1.45.Did that go away?
CHAIR LUCE: No. No.
MS. ADELSMAN: Tony retracted it.
MR. REICH: All right. I'm good.
CHAIR LUCE: Tony wants to do Oregon, but he wants to compute that into capacity factor, real-time capacity. Right, Tony?
MR. IFIE: Right. That was what it was.
MR. REICH: And I'm going to use 60 percent capacity factor for those.
MR. FIKSDAL: Correct.
MR. REICH: Okay.
CHAIR LUCE: Let me just conclude by saying that the Council -- let me try and get an understanding of the Council. The Council then will choose based on what we see one of those three for inclusion in the CR 102 rule which we go to the public with.
MR. FIKSDAL: Well, we'll see what the results are and then decide.
CHAIR LUCE: Right. I understand that. All I'm trying to do -- it ain't over until it's over.
MR. FIKSDAL: That's right.
CHAIR LUCE: But, on the other hand, I wanted everybody to sort of agree that we're moving inexorably down this path. We're asking Dave to do some significant, additional work, and additional work is headed toward our time line which brings us next up to a Draft SBEIS and cost benefit analysis and then the next step after that is a CR 102.
MS. ESSKO: Unless somebody identifies some criteria that have not been discussed. It's not clear to me that all the criteria –
CHAIR LUCE: Barring something unforeseen.
MS. ESSKO: Well, I'm not sure -- well, that's one way to put it.
CHAIR LUCE: Thank you.
MS. ESSKO: People have talked about criteria today that it isn't self-evident to me that are being captured in the economic analysis, and I think that there may be some additional thought necessary about whether all the criteria that people have are captured in the analysis.
CHAIR LUCE: We will deal with that, Ann. I think you're right.
MS. ESSKO: Okay.
CHAIR LUCE: We'll make sure all the criteria are captured.
MS. ADELSMAN: I have a real quick question for Dave. Dave, you said you're going to be running the model again on the cost, the siting cost. And how soon are you going to be able to come up with some of those numbers? I don't know whether it's reasonable to look at all three

scenarios in doing your siting, but that would be another additional information that I think would be really good for us to have. What is your schedule?
MR. IFIE: There's going to be two, two additional because it seems like you've already done one. You've already done one.
MS. ADELSMAN: No, no. He was –
MR. FIKSDAL: He's done the Oregon.
MR. REICH: If it's just a matter of providing similar analysis to this, I can have it for next Council meeting. If we're –
MS. ADELSMAN: No, I'm talking about -- I'm sorry. You talked about the CTED siting study, and I thought I heard you say you are updating it.
MR. REICH: Yes.
MS. ADELSMAN: And that's the one I'm asking. That's the one that will be looking at the siting cost of being Oregon, Washington, and I'm thinking if you could then include the mitigation, some of this mitigation, how soon can we have loose numbers?
MR. REICH: I think I can have numbers next Council meeting for that because we've been moving on that for a while, so I think we're rolling.
MS. ADELSMAN: Because I think that's an important thing for us to know how much more cost this is going to be adding and, you know, what does it mean.
MR. REICH: What I won't have is anything from the Power Planning Council, any of those kind of long models because we just don't have the time.
MS. ADELSMAN: Okay.
CHAIR LUCE: Dave, does our giving these numbers today help you or –
MR. FIKSDAL: Or hurt you.
CHAIR LUCE: Help you or hurt you. Does it help you expedite your analysis?
MR. REICH: Well, again, I would say I think this is a really good use of sort of the economic analysis is to look at these and go back and forth. Obviously at some point we have to put a number in and go forward.
CHAIR LUCE: So I think we are on track for mid February for a draft?
MR. REICH: That's still what I'm shooting for, yes.
CHAIR LUCE: So you're able to move that up several weeks based on what we just gave you. All right. Thank you.
MR. REICH: Thanks.
MR. FIKSDAL: I think that before we leave does any of the public want to say anything?
MR. PEEPLES: I think one of the critical factors that I'm really aware of dealing with guys trying to build them, you know, and finance them is, you know, when do you make the payment? And right now, Jim, my understanding is the payment commences upon construction.
CHAIR LUCE: That's right.
MR. PEEPLES: And I think you might -- I don't want to make it too complicated, but I would do one scenario at payment commences five years after construction and then another one payment commences with operation. That would give you another range because I think far more important is when you start paying and out of what income stream do you pay that? Financing is a whole other thing, and I don't know how you even calculate that in without talking to developers and saying, "Okay. Under certain circumstances what kills a project?" You know, and I'm not certain, but I've heard enough comments, been around enough to get a real strong feeling that, you know, the further you go down the time factor to commence your payment the more palatable it is. If you can take it out of your operation income stream and start making a

payment that's different than having to borrow from the bank. And it's all going to be bank financed, you guys, so it's not only the developer. It's what will the New York banks, what will the Dutch banks, which we're dealing with now, what are they going to do? So those are pretty complicated factors, and I think it might help you guys to add another scenario to that, run both of them.
MR. REICH: The numbers we have there assume 100 percent financing over five years; that you make your payments over five years, 100 percent financing.
CHAIR LUCE: Dave.
MR. REICH: Yes.
CHAIR LUCE: Would that be hard to do?
MR. REICH: Well, I guess are you saying that you could delay payment say two years between the …….
MR. PEEPLES: One could start at construction. The payment of five years starts at operation which is 18 months usually for 650. Mike?
MR. MILLS: Two years.
MR. PEEPLES: Two years. You know, so that payment starts two years later, but it comes out of an income stream hopefully, you know, unless they go bankrupt.
MR. REICH: To answer your question, Jim, --
CHAIR LUCE: In which case there's no abundant power at any cost. If that can be done without too much difficulty, I think it would again put the bookends on it certainly.
MR. REICH: Okay. That's really not a hard thing to do.
MR. IFIE: Another point, Jim.
CHAIR LUCE: Yes, Tony.
MR. IFIE: It seems like there's already an analysis done for the current number that's in the rule.
MR. REICH: Those numbers, yes.
MR. IFIE: Yes, you've already done one for that, for the numbers currently in the rule. I was wondering if you can keep that.
MR. REICH: Keep that?
MR. IFIE: Yes, don't discard it. Since you already have it you might as well just keep that.
MR. FIKSDAL: Add it to the others.
MR. REICH: Yes, just make a bigger table. I can do that.
MR. FIKSDAL: Mark or Bill, do you have anything?
MR. ANDERSON: Just one comment. I think you're doing exactly the right thing by looking at these issues. I think we would have the most difficulty at the moment just with the decision to go with a specific capacity factor whether it's 40 or 60 or 100 than with an estimate of actual operations. We've looked at some of the plants and as the Power Council said it's difficult to get some of this information in. But one of our programs we actually do get some information in, and we've seen them at 98 percent, we've seen them at 15 percent, and it differs from year to year. The main thing from our perspective is that coming in, the applicants provide estimates of how much natural gas they expect that they're going to consume, and that gives you a sense of their best guess at the time what their operating factors, capacity factor is going to be because they're estimating, well, we're going to be a peaker or every three years we won't operate quite as much or whatever. They built into their estimate of fuel consumption some assumption from their own perspective of what their capacity factor is going to be. And, again, it doesn't seem too hard to do it with that approach, and it seems more equitable. So I would still feel that would be probably our biggest concern at this point about the approach that you're discussing. But you're

doing it absolutely correctly to look at those different kind of factors. Transmission is a big cost. So if you site it someplace else, you've got to consider transmission costs. There is a big benefit to siting near load, and it does get complex, and all those things go into it. But it's not just a matter of what Oregon, you know, is charging about nine million dollars on this size plant and look they were siting, so we can at least go to nine million dollars and maybe shoot it up. It is reasonably complex and you're looking at the right issues.
MR. FIKSDAL: Bill, do you have anything?
MR. LABORDE: I'm very glad with the direction that this discussion is heading; however, just a couple of caveats. One, I'm very glad that the new representative from Ecology brought up the $2.30 figure because it is the only number that I heard today that is really in the realm of reality when you look at this information on the carbon markets and what it costs to mitigate a ton of CO2 in the Northwest. And also I just hope -- I've had some concern in the discussion that people were losing sight of the benefits on other side. As difficult as they are to assess I think the range of benefits that were cited here even if you buy into just the very floor range the benefits compared to the costs are still tremendous.
MR. FIKSDAL: Okay. Kirk or Ron, do you have anything to say?
MR. DEAL: This is information for me. I'm more concerned with socioeconomic impacts.
MR. VERHEI: I have none.
MR. FIKSDAL: Cindy.
MS. CUSTER: I was just going to say -- Cindy Custer, Bonneville Power -- a couple things. One is what might be of interest to the Council is kind of what energy markets have been doing just so you can kind of see. These independent power producers are operating based on what the market is. That's what they're charging. There's a forward market and there's a short-term market, and that's what they charge for their power. So if you put a big assessment on that, they may or may not be able to cover it. But it's really based on what the market is doing rather than some independent decision about what they're going to charge for power. I don't know that that needs to go under calculations, but it just might be of interest for you guys to see what the market bears. And I don't know if there's some way to say: Okay. This is going to add, you know, the number per ton doesn't calculate to me what that adds to the cost per megawatt hour.
MR. FIKSDAL: There's not a direct relationship.
MS. CUSTER: Yes. And I don't want to confuse anybody, but I think if you're trying to make a decision about what you're going to do to the market and whether or not power producers are going to come here, that's what you need to be looking at, what that impact is going to be to their cost of producing the power.
MR. FIKSDAL: That's their cost to sell it to the power market.
MS. CUSTER: Right. Because they don't determine the market.
MR. FIKSDAL: Right. Thank you.
CHAIR LUCE: Cindy, if you can give us some insight into what the Bi-Op is going to say we could probably go a long ways toward settling this.
MS. CUSTER: Right, Jim.
MR. FIKSDAL: I think, Jim, that concludes this discussion of that rule unless there's any other discussion of other rules that people want to have right now.

ITEM NO. 6: OTHER

MR. FIKSDAL: The next is in other on the agenda. The only other that I have is we passed out a page from today's Clearing Up and it talks about possible legislation, the Washington legislature on renewables and CO2 mitigation. And, Jim, I can send you this or whatever. It's a page-long discussion about potential bills that could impact EFSEC on having to do with transmission siting and getting involved with dam relicensing.
CHAIR LUCE: They finally listened; didn't they?
MS. TOWNE: This is mostly Jeff Morris.
CHAIR LUCE: I know it is.
MR. FIKSDAL: Anyway it was in Clearing Up this morning.
CHAIR LUCE: Good.
MR. FIKSDAL: The legislature starts a week from today.
MS. TOWNE: Goody gumdrops.
MR. FIKSDAL: Tim.
MR. SWEENEY: Effective today I'm back in my cubicle full time. My days as a house husband are over.
MR. FIKSDAL: Our condolences.
MR. SWEENEY: You can reach me at my office number now instead of my home number and send all correspondence there.
CHAIR LUCE: All correspondence at UTC?
MR. SWEENEY: Yes and emails. My email address will be -- I'll still keep my other email address open for a while, but it's more efficient to send it to the UTC address.
MS. LAAMB: And I'm going to update our roster, so that Council and staff have the current information like Tim's changes and make sure everybody gets Hedia's information and cell phones and things like that that I've kind of been asked about. But I don't have them collected yet for everyone, so I will be checking in with Council Members to get those updates and send it out today or tomorrow, so we can all have the current information.
CHAIR LUCE: If you could email me Dave's handout, I would appreciate that.
MS. LAAMB: Yes.
MR. FIKSDAL: The other thing I wanted to do is recognize Hedia as the new Council Member from -- I should have done this at the beginning. I'm sorry.
MS. ADELSMAN: I was late for the first one.
MR. FIKSDAL: She's not replacing Chuck Carelli, but she is an addition to the Council and welcome, Hedia.
MS. ADELSMAN: Thank you. I appreciate it.
CHAIR LUCE: Welcome, Hedia.
MR. FRYHLING: Welcome, Hedia, officially.
CHAIR LUCE: Is that it?
MR. FIKSDAL: Just a minute. Ann reminded me that we should probably have a short discussion on the reason that Dick Fryhling and Tony Ifie have abstained from the votes that we've had on the Kittitas Valley.
CHAIR LUCE: Good point.
MR. FIKSDAL: And do you want to continue that?
MS. ESSKO: In the Kittitas Wind Power Project adjudication one of the parties brought a motion for the disqualification of CTED, DNR, and Council Members Ifie and Fryhling on the

basis that in his view their participation violated the appearance of fairness doctrine and constitutional due process. The Council issued three orders a couple months ago denying the motion to disqualify, and the moving party again brought a motion to reconsider. Until that motion to reconsider is ruled upon by the Council, Dick and Tony are electing to abstain from any vote concerning the Kittitas Wind Power Project. They are not required to do that legally because there was no stay sought after the initial orders were issued. But in the interest of fairness and being transparent, not causing anybody any concern about the role they might be playing in the issuance of any orders, they are electing to abstain, and that's why when we had I think it was a prehearing conference right before Christmas there was a vote taken on a matter related to the Kittitas project, and Dick and Tony abstained in that as well. We just wanted to clarify that for anybody who might have had questions.
MR. FIKSDAL: And to get that on the record.
CHAIR LUCE: Ann?
MS. ESSKO: Yes.
CHAIR LUCE: The response to the motion for reconsideration.
MS. ESSKO: Yes.
CHAIR LUCE: The status?
MS. ESSKO: The Council has reviewed preliminary drafts of that, and that should be going out in the next week or so.
CHAIR LUCE: All right.
MS. ESSKO: The Council set a deadline for itself I believe of January 16 for that order to be issued. At this point, yes, the 16th, which is a Friday. At this point it looks like the Council is on track to get that issued by that date.
CHAIR LUCE: All right. Thank you.
MS. LAAMB: I know some of you met Tammy Talburt, our new assistant office staff, at the Council party, but for the record, she has joined us and is serving the Council staff in our office. I just wanted to let you all meet her, and she's been here today to see what this is all about. So we welcome her today.

ITEM NO. 7: ADJOURN

MR. FIKSDAL: Is there anything else that anybody wants to talk about that has any reasonable reason to come before the Council? Hearing none, it's adjourned.

(Council Meeting adjourned at 3:10 p.m.)